

BANK INDONESIA REGULATION
NUMBER: 8/3/PBI/2006
CONCERNING
CONVERSION OF BUSINESS OF CONVENTIONAL COMMERCIAL
BANKS TO COMMERCIAL BANKS CONDUCTING BUSINESS BASED ON
SHARIA PRINCIPLES AND ESTABLISHMENT OF BANK OFFICES
CONDUCTING BUSINESS BASED ON SHARIA PRINCIPLES BY
CONVENTIONAL COMMERCIAL BANKS

THE GOVERNOR OF BANK INDONESIA,

- Considering: a. whereas to respond to developments in the national economy, it is necessary to have a strong national banking system capable of delivering services to all levels of society;
- b. whereas to meet the growing public need for sharia banking services, there is a need for more expansive, easily accessible bank office networks conducting business based on sharia principles;
- c. now therefore pursuant to the consideration referred to in the above item a and item b, it is deemed necessary to enact renewed provisions concerning Conversion of Business of Conventional Commercial Banks to Commercial Banks Conducting Business Based on Sharia Principles and Establishment of Bank Offices Conducting Business Based on Sharia Principles by Conventional Commercial Banks;

- In view of: 1. Act Number 7 of 1992 concerning Banking (State Gazette of the Republic of Indonesia Number 31 of 1992, Supplement to the State Gazette of the Republic of Indonesia Number 3472),

as amended ...

as amended by Act Number 10 of 1998 (State Gazette of the Republic of Indonesia Number 182 of 1998, Supplement to the State Gazette of the Republic of Indonesia Number 3790);

2. Act Number 23 of 1999 concerning Bank Indonesia (State Gazette of the Republic of Indonesia Number 66 of 1999, Supplement to the State Gazette of the Republic of Indonesia Number 3843) as amended by Act Number 3 of 2004 (State Gazette of the Republic of Indonesia Number 7 of 2004, Supplement to the State Gazette of the Republic of Indonesia Number 4357);

HAS DECREED:

To enact:

THE BANK INDONESIA REGULATION CONCERNING
CONVERSION OF BUSINESS OF CONVENTIONAL
COMMERCIAL BANKS TO COMMERCIAL BANKS
CONDUCTING BUSINESS BASED ON SHARIA
PRINCIPLES AND ESTABLISHMENT OF BANK OFFICES
CONDUCTING BUSINESS BASED ON SHARIA
PRINCIPLES BY CONVENTIONAL COMMERCIAL
BANKS.

CHAPTER I GENERAL PROVISIONS

Article 1

The terminology used in this Bank Indonesia Regulation has the following meanings:

1. “Bank” is a Commercial Bank as defined in Act Number 7 of 1992 concerning Banking as amended by Act Number 10 of 1998, conducting conventional business, including the branch office of a foreign bank.
2. “Business Based on Sharia Principles” is banking business conducted in accordance with Sharia Principles as referred to in Article 1 number 13 of Act Number 7 of 1992 concerning Banking as amended by Act Number 10 of 1998.
3. “Branch Office” is a Bank office directly responsible to the head office of the Bank concerned and which conducts business at a permanent address.
4. “Office Below Branch Office” is a Sub-Branch Office or Cash Unit whose operations assist its parent Branch Office.
5. “Sub-Branch Office” is an Office Below Branch Office whose business operations assist its supervising Branch Office.
6. “Cash Unit” is an Office Below Branch Office whose business operations assist its parent Branch Office except in channeling of funds.
7. “Sharia Division” is a division set up in the head office of a Bank, functioning as the head office of Sharia Branch Offices and/or Sharia Units.
8. “Sharia Branch Office” is a Bank Branch Office conducting Business based on Sharia Principles.
9. “Sharia Sub-Branch Office” is an Office Below Sharia Branch Office whose business operations assist its parent Sharia Branch Office.
10. “Office ...

10. "Office Below Sharia Branch Office" is a Sharia Sub-Branch Office or Sharia Cash Unit conducting Business Based on Sharia Principles to assist its parent Sharia Branch Office.
11. "Sharia Cash Unit" is an Office Below Sharia Branch Office whose business operations assist its parent office except in channeling of funds.
12. "Sharia Unit" is a special unit reporting to the Sharia Division whose operations consist of mobilizing of funds, channeling of funds, and provision of other banking services based on Sharia Principles at a Branch Office or Sub-Branch Office of the Bank for the purpose of preparation for conversion to Sharia Branch Office.
13. "Outdoor Cash Operations" are cash services based on Sharia Principles provided to parties who are customers of the Bank, including but not limited to:
 - a. Mobile Cash Unit or Floating Cash Unit, namely an outdoor cash unit for providing service to customers by means of land or water transportation;
 - b. Payment Point, namely payment of certain transactions, including but not limited to employee payrolls, electricity bills, and telephone bills through cooperation between the Bank and Bank customers;
 - c. Automated Teller Machine (ATM), namely a cash unit operated electronically for the convenience of customers, including but not limited to withdrawal or deposit of cash, or payment by bookkeeping transfer, and obtaining information on customer account balances or changes, and includes ATMs operated with the use of technology in cooperation with other banks.
14. "National Sharia Council" is a council established by the Indonesian Ulama Council, having the power and function of issuing fatwas concerning products, services, and business of banks conducting Business Based on Sharia Principles.
15. "Sharia ...

15. “Sharia Supervisory Board” is a board supervising the application of sharia principles in the business of a Bank.
16. “Board of Directors”:
 - a. for a Bank incorporated as a Limited Liability Company is a board of directors as referred to in Article 1 number 4 of Act Number 1 of 1995 concerning Limited Liability Companies;
 - b. for a Bank legally incorporated as a Regional Government Enterprise is a board of directors as referred to in Article 11 of Act Number 5 of 1962 concerning Regional Government Enterprises;
 - c. for a Bank legally incorporated as a Cooperative is a management board as referred to in Article 29 of Act Number 25 of 1992 concerning Cooperatives.
17. “Board of Commissioners”:
 - a. for a Bank legally incorporated as a Limited Liability Company is a board of commissioners as referred to in Article 1 number 5 of Act Number 1 of 1995 concerning Limited Liability Companies;
 - b. for a Bank legally incorporated as a Regional Government Enterprise is a board of commissioners as referred to in Article 19 of Act Number 5 of 1962 concerning Regional Government Enterprises;
 - c. for a Bank legally incorporated as a Cooperative is a supervisory board as referred to in Article 38 of Act Number 25 of 1992 concerning Cooperatives.
18. “Executive Officer” is any officer exerting influence on Bank policy and operations and/or is directly responsible to the Board of Directors, including but not limited to the manager of Branch Office.
19. “Controlling Shareholder” is a legal entity and/or natural person and/or a business group that:
 - a. owns ...

- a. owns shares in a company or Bank amounting to 25% (twenty-five percent) or more of total issued shares with voting rights;
 - b. owns shares in a company or Bank amounting to less than 25% (twenty-five percent) of total shares issued with voting rights, but can be proven to exercise control of the company or Bank, whether directly or indirectly.
20. "Sharia Services" are the activities of funds mobilization conducted at a Branch Office and/or at an Office Below Branch Office for and on behalf of a Sharia Branch Office at the same Bank.

CHAPTER II

CONVERSION OF BUSINESS OF CONVENTIONAL COMMERCIAL BANK TO COMMERCIAL BANK CONDUCTING BUSINESS BASED ON SHARIA PRINCIPLES

Article 2

- (1) A Bank may only convert its business to a Bank conducting Business Based on Sharia Principles pursuant to a license from the Governor of Bank Indonesia.
- (2) Any plan for conversion of business as referred to in paragraph (1) shall be disclosed in business plan of the Bank.

Article 3

- (1) Application for license for conversion of business shall be submitted by the Bank to the Governor of Bank Indonesia and must enclose the following:
 - a. articles of association of the Bank;
 - b. draft deed of amendment to the articles of association, stating at least the following:
 - 1. name and domicile;

2. confirmation ...

2. confirmation that the Bank conducts Business Based on Sharia Principles;
 3. capital, in event of any change;
 4. ownership, in event of any change;
 5. powers, responsibilities, and term of office of the Board of Directors and Board of Commissioners, in event of any change;
 6. placement of the Sharia Supervisory Board and its functions.
- approved by a general meeting of shareholders and drawn up before a notary public in the Indonesian language.
- c. minutes of the general meeting of shareholders;
 - d. data consisting of:
 1. list of nominee shareholders and details of each individual shareholding, for a Bank incorporated as a Limited Liability Company/Regional Government Enterprise;
 2. list of nominee members and details of principal savings, mandatory savings, and a list of endowments, for a Bank incorporated as a Cooperative;in the event of any change in ownership.
 - e. list of nominees for the Board of Directors, Board of Commissioners, and Sharia Supervisory Board, enclosing for each:
 1. 4 x 6 cm passport photo taken within the last 1 (one) month;
 2. photocopy of identification, whether identity card (KTP) or passport;
 3. curriculum vitae;
 4. specimen signature and initials;
 5. photocopy of Temporary Residential Permit Card (KIMS) and photocopy of work permit from the competent authority, for a foreign citizen;

6. personal statement that the person concerned has never been involved in disgraceful acts in the banking, financial, and other business, has never been convicted of criminal act, and is not under a term of imposition of sanctions prohibiting him/her from serving on bank management as set forth in the regulatory provisions concerning the Fit and Proper Test stipulated by Bank Indonesia;
7. personal statement that the person concerned has never been declared bankrupt nor has been a shareholder, member of the Board of Directors or Board of Commissioners found at fault for causing a company to be declared bankrupt pursuant to a court decision during the 5 (five) years preceding the application date;
8. statement or written evidence from the former Bank at which the nominee has previously been employed regarding his or her experience in banking operations, for an experienced nominee for the Board of Directors or experienced nominee for the Board of Commissioners;
9. statement from an educational institution concerning sharia banking education received by an inexperienced nominee for the Board of Directors or inexperienced nominee member for the Board of Commissioners;
10. personal statement from each member of the Board of Commissioners that the individual concerned does not hold any concurrent position in excess of the provisions referred to in the Bank Indonesia Regulation concerning Implementation of Good Corporate Governance as applicable for banks conducting Business Based on Sharia Principles.
11. personal statement from each member of the Board of Directors that the individual concerned does not hold any concurrent position as member of the Board of Directors, Board of Commissioners, or Executive

Officer at any other bank, company, and/or institution as referred to in the Bank Indonesia Regulation concerning Implementation of Good Corporate Governance as applicable for banks conducting Business Based on Sharia Principles.

12. personal statement from each member of the Board of Directors and Board of Commissioners that the individual concerned does not have any family ties with the majority of members of the Board of Commissioners/Board of Directors as referred to in the Bank Indonesia Regulation concerning Implementation of Good Corporate Governance as applicable for banks conducting Business Based on Sharia Principles;
 13. personal statements from the members of the Board of Directors that they neither jointly nor severally own more than 25% (twenty-five percent) of shares in the paid-up capital of another company;
 14. personal statement from each member of Sharia Supervisory Board that the individual concerned does not hold any concurrent positions as referred to in the Bank Indonesia Regulation concerning commercial banks conducting business based on sharia principles;
- f. planned organizational structure, including composition of personnel;
- g. Business plan of the Bank for the first year, stating at least the following:
1. feasibility study on market opportunities and economic potential pertaining sharia banking, accompanied by supporting data;
 2. operation plan for mobilization and channeling of funds, and steps to be taken to carry out this plan; and
 3. monthly balance sheet, income statement, and cash flow projections for 12 (twelve) months from the date that the Bank is to commence business based on sharia principles;

h. medium ...

- h. medium and long term strategic corporate plan;
 - i. risk management guidelines, plan for internal control system, plan for the information technology system to be used, and scale of authority;
 - j. working systems and procedures;
 - k. plan for settlement of all rights and liabilities of the Bank towards customers unwilling to be customers of a Bank based on Sharia Principles;
 - l. evidence of operational readiness, comprising at least the following:
 - 1. list of fixed assets and inventory;
 - 2. evidence of ownership, control, or lease agreement for office premises;
 - 3. photograph of office building and layout of office space;
 - 4. specimen forms/slips to be used in the bank operations; and
 - 5. Taxpayer Identification Number (NPWP) and Corporate Registration (TDP);
- (2) List of nominee shareholders or list of nominee members as referred to in paragraph (1) letter d:
- a. in the case of individual, the following must be enclosed:
 - 1. documents as referred to in paragraph (1) letter e number 1, number 2, number 3, number 4, and number 5;
 - 2. personal statement from the nominee Controlling Shareholder, declaring his or her willingness to solve any capital or liquidity difficulties faced by the bank in the course of its business; and
 - 3. personal statement that the nominee has never been involved in disgraceful acts in the banking, financial, and other business, has never been convicted of criminal act, and is not under a term of imposition of sanctions prohibiting him or her from becoming owner with more than 10% (ten percent) ownership, and/or a Controlling Shareholder of a

bank as set forth in the provisions concerning the Fit and Proper Test stipulated by Bank Indonesia;

- b. in the case of a legal entity, the following must be enclosed:
1. deed of incorporation of legal entity, including the articles of association and any amendments thereto validated by the competent authority, including, in the case of a foreign legal entity, in accordance with applicable regulatory provisions in the country of origin of the legal entity concerned;
 2. documents as referred to in paragraph (1) letter e number 1 through number 5 for all members of the Board of Directors and Board of Commissioners of the legal entity concerned;
 3. recommendation from the competent authority in the country of origin, for a foreign legal entity;
 4. list of shareholders and details of each individual shareholding, for a legal entity incorporated as a Limited Liability Company/Regional Government Enterprise, or list of members and details of principal savings, mandatory savings, and a list of endowments, for a legal entity incorporated as a Cooperative;
 5. financial statement of the legal entity audited by a public accountant for a position no more than 6 (six) months prior to the date of submission of application for approval ;
 6. entire structure of the business group related to the Bank and the legal entities of the owners of the Bank up to the ultimate owner, except for the Central Government and/or a Regional Government; and
 7. personal statement from the nominee Controlling Shareholder declaring his or her willingness to solve any capital or liquidity difficulties faced

by the ...

by the Bank in the course of its business, except for the Central Government and/or a Regional Government.

Article 4

- (1) Approval or rejection of application for approval of conversion of business as referred to in Article 3 shall be issued no later than 60 (sixty) days after receipt of the complete application.
- (2) With regard to approval or rejection as referred to in paragraph (1), Bank Indonesia shall:
 - a. examine and verify the documents;
 - b. analyze, among others, the level of fair competition among banks conducting Business Based on Sharia Principles or saturation level of number of banks conducting Business Based on Sharia Principles and equitable distribution of economic activity; and
 - c. interview the nominee Controlling Shareholder, nominees for the Board of Commissioners, nominees for the Board of Directors, and nominees for the Sharia Supervisory Board.
- (3) The Bank submitting the application for license for conversion of operations must conduct a presentation to Bank Indonesia of the entire plan for conversion of business.

Article 5

If the amendment of the articles of association of the Bank requires approval from the competent authority, the application to the competent authority for approval of the amendment to the articles of association shall be submitted at the same time as submission of the application for license for conversion of business as referred to in Article 3.

Article 6

The license for conversion of business shall be effective from:

- a. the date of approval of amendment to the articles of association or deed of incorporation, including articles of association, by the competent authority.
- b. the date of registration of the deed for amendment of the articles of association in the company register if the amendment to the articles of association does not require approval from a competent authority.

Article 7

- (1) A Bank having obtained a license for conversion of business from the Governor of Bank Indonesia shall open Business Based on Sharia Principles no later than 60 (sixty) days after the issuance of approval for conversion of business.
- (2) Conversion of business as referred to in paragraph (1) shall be reported by the Board of Directors of the bank to Bank Indonesia no later than 10 (ten) days after the date of opening Business Based on Sharia Principles.
- (3) If after the period referred to in paragraph (1) the Bank has not opened Business Based on Sharia Principles, the issued license for conversion of business shall be declared no longer valid.

Article 8

- (1) A Bank which has obtained a license for conversion of business shall settle all rights and liabilities toward debtors and creditors arising from conventional business no later than 360 (three hundred and sixty) days after the date of issuance of the license for conversion of business.

- (2) For settlement of all rights and liabilities to debtors and creditors as referred to in paragraph (1), the bank may convey information/notification to creditors and debtors directly and/or through the mass media.
- (3) Based on application submitted by the bank, Bank Indonesia may extend the period referred to in paragraph (1) for the purpose of settlement of the earning assets of the Bank.
- (4) Any application for extension as referred to in paragraph (3) shall be submitted not later than 30 (thirty) days prior to the expiration of the period referred to in paragraph (1), enclosing the reasons for extension and supporting evidence.
- (5) A Bank that has obtained a license for conversion of business is prohibited from conducting conventional business, except for settlement of transactions as referred to in paragraph (1) and paragraph (3).

Article 9

A Bank having received a license for conversion of business from the Governor of Bank Indonesia is required to clearly state the word “*Syariah*” (Sharia) after the word “Bank” in the inscription of its name.

Article 10

A Bank which originally held an operating license as Bank conducting conventional business and which has obtained a license for conversion of business to a bank conducting Business based on Sharia Principles is prohibited from converting Business based on Sharia Principles to conventional business.

CHAPTER III
ESTABLISHMENT BY BANKS OF OFFICES CONDUCTING BUSINESS
BASED ON SHARIA PRINCIPLES

Part One

Sharia Divisions

Article 11

- (1) A Bank intending to open Bank offices conducting Business Based on Sharia Principles is required to establish a Sharia Division at the Bank head office.
- (2) The Sharia Division referred to in paragraph (1) shall have the following functions:
 - a. regulate and supervise all operations of Sharia Branch Offices and/or Sharia Units;
 - b. place and manage funds originating from Sharia Branch Offices and/or Sharia Units;
 - c. receive and administer financial statements from Sharia Branch Offices and/or Sharia Units for the preparation of the consolidated statement;
 - d. conduct other activities in its capacity as head office of the Sharia Branch Offices and/or Sharia Units.
- (3) The activity plan for the Sharia Division shall be disclosed in business plan of the Bank, and shall state at least the following:
 - a. plan for mobilization of funds;
 - b. plan for channeling of funds;
 - c. plan for capital ;
 - d. projections of ratios and certain items;
 - e. plan for organizational and human resources development;
 - f. plan for development of new products and activities;
 - g. plan for office network expansion.

(4) The ...

- (4) The Head of Sharia Division must meet the following requirements:
- a. consist of not less than Executive Officers at one level below the Board of Directors;
 - b. committed to conducting the operations of a Bank conducting business based on Sharia Principles;
 - c. possessed high integrity and strong moral values; and
 - d. experienced in the operations of banks conducting Business Based on Sharia Principles and/or have received training in the operations of banks conducting Business Based on Sharia Principles, whether in Indonesia or overseas.
- (5) The Sharia Supervisory Board must be installed within the Sharia Division.

Part Two

Sharia Supervisory Board and Executive Officers

Article 12

Regulation of the Sharia Supervisory Board and Executive Officers shall be guided by the regulatory provisions concerning the Sharia Supervisory Board and Executive Officers as stipulated in the Bank Indonesia Regulation concerning Commercial Banks Conducting Business Based on Sharia Principles.

Part Three

First-Time Establishment of Sharia Branch Office

Article 13

- (1) A Bank having established a Sharia Division may establish a Sharia Branch Office by:
- a. establishing a new Sharia Branch Office;
 - b. converting a Branch Office to Sharia Branch Office;
 - c. upgrading ...

- c. upgrading the status of Office below Branch Office to Sharia Branch Office;
 - d. converting a Branch Office that previously opened a Sharia Unit to a Sharia Branch Office;
 - e. upgrading a Sub-Branch Office that previously opened a Sharia Unit to a Sharia Branch Office; and/or
 - f. establishment of a new Sharia Branch Office originating from a Sharia Unit of a Branch Office and/or Sub-Branch Office in the same location or outside the location of the Branch Office and/or Sub-Branch Office in which the Sharia Unit previously operated.
- (2) A Bank may only establish a Sharia Branch Office as referred to in paragraph (1) pursuant to a license from the Governor of Bank Indonesia.
- (3) The plan for establishment of a Sharia Branch Office as referred to in paragraph (1) shall be disclosed in business plan of the Bank issued a letter of confirmation from Bank Indonesia.
- (4) Granting of license as referred to in paragraph (1) letter a, letter b, and letter c shall take place in two stages:
- a. approval in principle, meaning approval to conduct preparations for establishment of the Sharia Branch Office;
 - b. license for establishment of Sharia Branch Office, meaning a license to conduct the business of the Sharia Branch Office after preparations as referred to in letter a are completed.
- (5) Granting of a license as referred to in paragraph (1) letter d, letter e, and letter f shall take place in one step, namely the license for establishment of the Sharia Branch Office without requiring approval in principle.

Article 14

A Bank establishing a Sharia Branch Office as referred to in Article 13 paragraph (1) is required to:

- a. set aside the minimum working capital for business based on sharia principles to cover initial operating expenses, and
- b. comply with the Minimum Capital Adequacy Requirement for Sharia Divisions.

Article 15

A Bank having a Sharia Branch Office is required to:

- a. maintain separate records and bookkeeping for Business Based on Sharia Principles;
- b. prepare financial statements for Business Based on Sharia Principles; and
- c. include the financial statements referred to in letter b into the consolidated financial statement.

Article 16

A Bank Office having received a license for establishment of a Sharia Branch Office is required to state the word "*Syariah*" (Sharia Branch Office) in each inscription of its office name.

Article 17

- (1) A Bank Office licensed for opening a Sharia Branch Office is prohibited from converting the business of the Sharia Branch Office to Branch Office conducting conventional business.
- (2) Bank Indonesia shall revoke the license for establishment of a Sharia Branch Office found to have conducted conventional business.

Article 18

(1) Application for approval in principle for establishment of a Sharia Branch Office as referred to in Article 13 paragraph (1) letter a shall be submitted by the Bank to the Governor of Bank Indonesia and must enclose the following:

- a. consolidated financial statement and detailed report of earning assets quality for the 2 (two) months prior to the date of application;
- b. plan for operational readiness for establishment of the Sharia Branch Office;
- c. documents as referred to in Article 3 paragraph (1) letter a, letter b, letter f, and letter g;
- d. documents and identity of Sharia Branch Office manager, consisting of:
 1. 4 x 6 cm passport photograph, taken during the past 1 (one) month;
 2. photocopy of identity in the form of ID card (KTP) or passport;
 3. curriculum vitae;
 4. specimen signature and initials; and
 5. evidence of experience in the operations of banks conducting Business Based on Sharia Principles and/or statement concerning training received at a domestic or overseas sharia banking training institution.
- e. documents pertaining to the identity of candidates for the Sharia Supervisory Board as referred to in Article 3 paragraph (1) letter e number 1 through number 7, for the first-time establishment of a Sharia Branch Office;
- f. documents and identity of the Head of Sharia Division, for first-time establishment of a Sharia Branch Office, consisting of:
 1. 4 x 6 cm passport photograph, taken during the past 1 (one) month;
 2. photocopy of identity in the form of ID card (KTP) or passport;

3. curriculum vitae;
 4. specimen signature and initials; and
 5. evidence of experience in the operations of a bank conducting business based on sharia principles and/or statement from a training institution concerning participation in domestic or overseas training in sharia banking.
- g. feasibility study presenting at least economic potential, market opportunities, level of fair competition among banks conducting Business Based on Sharia Principles, and saturation level of number of banks conducting Business Based on Sharia Principles, enclosing supporting data from the relevant agencies;
 - h. monthly cash flow projection for 12 (twelve) months;
 - i. business plan for the Branch Office for at least the 12 (twelve) months; and
 - j. reasons for establishment of the Sharia Branch Office.
- (2) Application for approval in principle for establishment of a Sharia Branch Office as referred to in Article 13 paragraph (1) letter b and letter c shall be submitted by the Bank to the Governor of Bank Indonesia, and must enclose the following:
- a. documents as referred to in paragraph (1); and
 - b. plan for settlement of all rights and liabilities of the Bank office towards customers unwilling to become customers of the Sharia Branch Office.

Article 19

- (1) With regard to approval or rejection of application for approval in principle as referred to in Article 18, Bank Indonesia shall:
- a. examine and verify the documents;

- b. analyze, among others, the capacity of the Bank including rating, level of fair competition among banks conducting Business Based on Sharia Principles, saturation level of number of banks conducting Business Based on Sharia Principles, and market opportunities; and
 - c. interview the nominees for the Sharia Supervisory Board.
- (2) If necessary, Bank Indonesia may conduct on-site examination of the preparations for office opening and integrity of submitted documents.
- (3) Approval or rejection of application for approval in principle as referred to in paragraph (1) shall be issued no later than 30 (thirty) days after receipt of the complete application.

Article 20

- (1) Approval in principle as referred to in Article 19 paragraph (1) shall be effective for 180 (one hundred and eighty) days after the date of issuance of the approval in principle.
- (2) The Bank and/or Bank office which has obtained approval in principle as referred to in paragraph (1) is prohibited from conducting Business Based on Sharia Principles prior to receiving a license for establishment of the Sharia Branch Office.
- (3) If after the period referred to in paragraph (1) the Bank and/or Bank office having obtained approval in principle as referred to in paragraph (2) has not submitted an application for establishment of a Sharia Branch Office, the issued approval in principle shall be declared no longer valid.

Article 21

- (1) Application for license for establishment of Sharia Branch Office as referred to in Article 13 paragraph (1) letter a shall be submitted by the Bank to the

Governor ...

Governor of Bank Indonesia and must enclose the documents referred to in Article 3 paragraph (1) letter f, letter g, letter h, letter i, letter j, and letter l, in the event of any change, and the amendment to the articles of association approved by the competent authority.

- (2) Application for license for establishment of a Sharia Branch Office, for conversion of business of a Branch Office conducting conventional business to a Sharia Branch Office as referred to in Article 13 paragraph (1) letter b and/or for upgrading of Office Below Branch Office conducting conventional business to Sharia Branch Office as referred to in Article 13 paragraph (1) letter c shall be submitted by the Bank to the Governor of Bank Indonesia, and must enclose the following:
 - a. documents as referred to in paragraph (1); and
 - b. report of completion of settlement of all rights and liabilities of the Bank office to customers unwilling to become customers of the Sharia Branch Office.

Article 22

- (1) With regard to issuance of approval or rejection as referred to in Article 21, Bank Indonesia shall examine and verify the documents and interview the nominees for the Sharia Supervisory Board.
- (2) Approval or rejection of application for a license as referred to in paragraph (1) shall be issued no later than 30 (thirty) days after receipt of the complete application.
- (3) The Bank and/or Bank office which has obtained the license for establishment of a Sharia Branch Office as referred to in paragraph (2) shall open for Business Based on Sharia Principles no later than 30 (thirty) days after the date of issuance of the license for establishment of the office.

- (4) Opening of a Sharia Branch Office as referred to in paragraph (3) shall be reported by the Bank to Bank Indonesia no later than 10 (ten) days after the opening date.
- (5) If after the period as referred to in paragraph (3) the Sharia Branch Office has not opened for Business Based on Sharia Principles, the previously issued license issued for the establishment of that Sharia Branch Office shall be declared no longer valid.

Article 23

- (1) A Sharia Branch Office established according to the procedure referred to in Article 13 paragraph (1) letter b and letter c shall settle all rights and liabilities of debtors and creditors arising from conventional business not later than 360 (three hundred and sixty days) after the date of issuance of the license for establishment of the office.
- (2) For settlement of all rights and liabilities to debtors and creditors as referred to in paragraph (1), the Bank may convey information/notification to creditors and debtors directly and/or through the mass media.
- (3) The Sharia Branch Office is prohibited from conducting conventional banking business, except for settlement of transactions as referred to in paragraph (1).

Part Four

Establishment of Sharia Branch Offices by Opening of Sharia Units

Article 24

- (1) A domestic Sharia Unit may only be opened pursuant to approval from the Governor of Bank Indonesia.
- (2) A Sharia Unit as referred to in paragraph (1) may only be opened after the Bank has a Sharia Division.

(3) A Sharia ...

- (3) A Sharia Unit as referred to in paragraph (1) may only be opened for the purpose of:
- a. conversion of Branch Office to Sharia Branch Office;
 - b. upgrading of Bank Sub-Branch Office to Sharia Branch Office;
 - c. establishment of a new Sharia Branch Office in the same location or outside the location of the conventional office in which the Sharia Unit previously operated.
- (4) Any plan for opening of a Sharia Unit as referred to in paragraph (1) shall be disclosed in the Bank corporate plan issued a letter of confirmation from Bank Indonesia.

Article 25

A Bank opening a Sharia Unit as referred to in Article 24 paragraph (1) is required to:

- a. set aside the minimum working capital for Business Based on Sharia Principles to cover initial operating expenses, and
- b. comply with the Minimum Capital Adequacy Requirement for Sharia Divisions.

Article 26

(1) Application for approval for opening a Sharia Unit shall be submitted by the Bank to the Governor of Bank Indonesia and must enclose the following:

- a. feasibility study presenting the fair level of competition among banks conducting Business Based on Sharia Principles;
- b. plan for operational preparations for opening of the Sharia Unit, encompassing readiness of human resources, accounting system, and information technology;

c. planned ...

- c. planned reasonable timeframe for changing the Sharia Unit to Sharia Branch Office;
 - d. amendment to articles of association stating clearly that the Bank conducts Business Based on Sharia Principles and the placement and duties of the Sharia Supervisory Board, for the first-time opening of a Sharia Unit;
 - e. Business plan of the Bank for the first year, stating at least the following:
 - 1. feasibility study of market opportunities and economic potential pertaining sharia banking , enclosing supporting evidence;
 - 2. operation plan encompassing the mobilization and channeling of funds as well as the operational measures to be taken to realize the plan;and
 - 3. balance sheet, income statement, and monthly cash flow projection for the first 12 (twelve) months after the Sharia Unit commences operations;
 - f. planned organizational structure and composition of personnel in charge of activities of the Sharia Unit;
 - g. evidence of operational experience in a bank conducting business based on sharia principles and/or certificate of training in the operations of banks conducting Business Based on Sharia Principles, for the Head of the Bank Branch Office or Sub-Branch Office;
 - h. documents concerning the identity of nominees for the Sharia Supervisory Board as referred to in Article 3 paragraph (1) letter e, for the first-time opening of a Sharia Unit;
 - i. documents and identity for the Head of the Sharia Division as referred to in Article 18 paragraph (1) letter f, for the first-time opening of a Sharia Unit.
- (2) With regard to approval or rejection of application as referred to in paragraph (1), Bank Indonesia shall:

a. examine ...

- a. examine and verify the documents;
 - b. analyze, among others, the capacity of the Bank including rating, level of fair competition among Banks conducting Business Based on Sharia Principles, saturation level of number of Banks Business Based on Sharia Principles, and market opportunities for sharia banking; and
 - c. interview the nominees for the Sharia Supervisory Board.
- (3) If necessary, Bank Indonesia may conduct on-site examination of the preparations for opening the Sharia Unit as referred to in paragraph (1).
- (4) Approval or rejection of application as referred to in paragraph (1) shall be issued no later than 30 (thirty) days after receipt of the complete application.

Article 27

- (1) The Sharia Unit shall open for business not later than 30 (thirty) days after the date of approval for opening.
- (2) Opening of the Sharia Unit shall be reported by the Bank to Bank Indonesia no later than 10 (ten) days after the opening date.
- (3) If after the period referred to in paragraph (1) the Bank has not opened the Sharia Unit for business, the issued approval for opening the Sharia Unit shall be declared no longer valid.

Article 28

- (1) A Bank Branch Office and/or Sub-Branch Office that has obtained approval for the opening of a Sharia Unit is required to clearly state the word "*Unit Syariah*" (Sharia Unit) at the place in which the Sharia Unit conducts business.
- (2) Sharia Units are required to:
- a. prepare financial statements for Business Based on Sharia Principles;

b. maintain ...

- b. maintain separate records and bookkeeping for Business Based on Sharia Principles; and
- c. include the financial statement referred to in letter b in the consolidated financial statement.

Article 29

- (1) If the Bank fails to comply with the planned time for changing of a Sharia Unit to Sharia Branch Office as referred to in Article 26 paragraph (1) letter c, Bank Indonesia shall revoke the approval for the Sharia Unit.
- (2) The Bank shall be required to settle liabilities to customers and other parties no later than 90 (ninety) days after revocation of approval for the Sharia Unit.
- (3) The Bank shall submit the report for settlement of liabilities to customers and other parties to Bank Indonesia not later than 10 (ten) days after the period referred to in paragraph (2).
- (4) The reports referred to in paragraph (3) must enclose evidence of settlement of liabilities and a statement from the Bank office manager that the measures for settlement of all liabilities of the Sharia Unit to customers and other parties have been completed.

Article 30

- (1) Application for a license for establishment of a Sharia Branch Office as referred to in Article 13 paragraph (1) letter d and letter e shall be submitted by the Bank to the Governor of Bank Indonesia no later than 60 (sixty) days prior to the expiration of the deadline for the planned changing of the Sharia Unit to Sharia Branch Office as referred to in Article 26 paragraph (1) letter c, and must enclose the following:

- a. documents ...

- a. documents as referred to in Article 3 letter f, letter g, letter h, letter i, letter j, and letter l;
 - b. documents and identity of the manager of Sharia Branch Office as referred to in Article 18 paragraph (1) letter d; and
 - c. report on settlement of all rights and liabilities of the Branch Office and/or Sub-Branch Office.
- (2) Application for license for establishment of a Sharia Branch Office as referred to in Article 13 paragraph (1) letter f shall be submitted by the Bank to the Governor of Bank Indonesia no later than 60 (sixty) days prior to the expiration of the deadline for the planned changing of the Sharia Unit to Sharia Branch Office as referred to in Article 26 paragraph (1) letter c, in compliance with the requirements stipulated in Article 18 paragraph (1) letter a, letter b, letter c, letter d, letter g, letter h, and letter i.
- (3) With regard to approval or rejection of application as referred to in paragraph (1) and paragraph (2), Bank Indonesia shall:
- a. examine and verify the documents; and
 - b. analyze, among others, the capacity of the Bank including rating, level of fair competition among banks conducting business based on sharia principles or saturation level of number of banks conducting business based on sharia principles, and equitable distribution of national economic development.
- (4) If necessary, Bank Indonesia may conduct on-site examination of the preparations for establishment of the Sharia Branch Office as referred to in paragraph (1) and paragraph (2).
- (5) Approval or rejection of application for license as referred to in paragraph (1) and paragraph (2) shall be issued no later than 30 (thirty) days after receipt of the complete application.

Article 31

If the establishment of the Sharia Branch Office took place by conversion of Bank Branch Office to Sharia Branch Office, all Offices Below that Branch Office of the Bank may be:

- a. converted to offices conducting Business Based on Sharia Principles; or
- b. transferred by reporting to another Branch Office within the same clearing area; or
- c. closed.

Part Five

Establishment of Subsequent Sharia Branch Offices

Article 32

- (1) A Bank already having a Sharia Branch Office may only establish subsequent Sharia Branch Offices pursuant to a license from the Governor of Bank Indonesia.
- (2) Any plan for establishment of subsequent Sharia Branch Offices as referred to in paragraph (1) shall be disclosed in business plan of the Bank issued a letter of confirmation from Bank Indonesia.
- (3) A Bank that has a Sharia Branch Office is required to:
 - a. maintain separate records and bookkeeping for Business Based on Sharia Principles;
 - b. prepare financial statements for Business Based on Sharia Principles;
 - c. include the financial statements referred to in letter b in the consolidated financial statement; and
 - d. comply with the Minimum Capital Adequacy Requirement for Sharia Divisions.

Article 33

- (1) Application for license for establishment of a subsequent Sharia Branch Office as referred to in Article 32 paragraph (1) shall be submitted by the Bank to the Governor of Bank Indonesia, subject to the following provisions:
 - a. for establishment of a subsequent Sharia Branch Office according to the procedure referred to in Article 13 paragraph (1) letter a, enclosing the documents referred to in Article 3 paragraph (1) letter f and letter g, Article 14 letter b, Article 15, Article 16, Article 17, and Article 18 paragraph (1) letter a, letter b, letter d, and letter g;
 - b. for establishment of subsequent Sharia Branch Office according to the procedure referred to in Article 13 paragraph (1) letter b and letter c, enclosing the documents referred to in letter a and Article 18 paragraph (2) letter b;
 - c. for establishment of subsequent Sharia Branch Office according to the procedure referred to in Article 13 paragraph (1) letter d and letter e, in compliance with the provisions referred to in Article 30 paragraph (1);
 - d. for establishment of subsequent Sharia Branch Office according to the procedure referred to in Article 13 paragraph (1) letter f, in compliance with the provisions referred to in Article 30 paragraph (2).
- (2) With regard to approval or rejection of application as referred to in paragraph (1) letter a and letter b, Bank Indonesia shall:
 - a. examine and verify the documents; and
 - b. analyze, among others, the capacity of the Bank including rating, the level of fair competition among Banks conducting Business Based on Sharia Principles, saturation level of number of Banks conducting Business Based on Sharia Principles, and equitable distribution in national economic development.

(3) If ...

- (3) If necessary, Bank Indonesia may conduct on-site examination of the preparations for establishment of office and integrity of submitted documents.
- (4) Approval or rejection of application as referred to in paragraph (1) letter a and letter b shall be issued no later than 30 (thirty) days after receipt of the complete application.

Article 34

- (1) The Sharia Branch Office shall open for business not later than 30 (thirty) days after the date of issuance of the license from the Governor of Bank Indonesia.
- (2) Opening of subsequent Sharia Branch Office for business as referred to in paragraph (1) shall be reported to Bank Indonesia no later than 10 (ten) days after the opening date.
- (3) If after the period referred to in paragraph (1) the Bank has not opened the Sharia Branch Office for business, the previously issued license for establishment of the Sharia Branch Office shall be declared no longer valid.

Part Six

Opening of Offices Below Branch Office

Article 35

- (1) Any plan for establishment of domestic Offices Below Sharia Branch Office shall be disclosed in business plan of the Bank issued a letter of confirmation from Bank Indonesia.
- (2) Opening of an Office Below Sharia Branch Office as referred to in paragraph (1) may take place:
 - a. within the same Bank Indonesia Regional Office working area as the parent Sharia Branch Office; and

b. taking ...

- b. taking into account a feasibility study on the saturation level of number of banks conducting Business Based on Sharia Principles;
 - c. using its own human resources of the Bank; and
 - d. in compliance with the Minimum Capital Adequacy Requirement for Sharia Divisions.
- (3) An Office Below Sharia Branch Office may be opened at the same address as a Bank Branch Office and/or Office Below Branch Office, notwithstanding taking account of the issue of security.
- (4) The financial statement of an Office Below Sharia Branch Office must be consolidated into the financial statement of the parent Sharia Branch Office on the same day.

Article 36

- (1) A Bank shall submit a plan for opening an Office Below Sharia Branch Office to Bank Indonesia no later than 30 (thirty) days prior to the opening of the office, enclosing a feasibility study presenting the saturation level of number of banks conducting Business Based on Sharia Principles; and
- (2) Opening of an Office Below Sharia Branch Office as referred to in paragraph (1) shall open for business not later than 30 (thirty) days after the date of the confirmation letter from Bank Indonesia.
- (3) Opening of an Office Below Sharia Branch Office as referred to in paragraph (2) shall be reported to Bank Indonesia no later than 10 (ten) days after the opening date.

Part Seven

Outdoor Cash Operations

Article 37

The regulation of Outdoor Cash Operations shall be guided by the provisions for outdoor cash operations as stipulated in the Bank Indonesia Regulation concerning Commercial Banks Conducting Business Based on Sharia Principles.

Part Eight

Sharia Services

Article 38

- (1) Any plan for Sharia Services shall be disclosed in business plan of the Bank issued a letter of confirmation from Bank Indonesia.
- (2) Sharia Services may be opened:
 - a. in the same Bank Indonesia Regional Office working area as the parent Branch Office;
 - b. under a cooperative arrangement between the parent Sharia Branch Office and a Branch Office and/or Sub-Branch Office; and
 - c. using its own human resources of the Bank knowledgeable in Sharia Bank products and operations.
- (3) Sharia Services are required to:
 - a. maintain separate records and bookkeeping from the Branch Office and/or Sub-Branch Office; and
 - b. use the applicable sharia banking financial accounting standards.
- (4) The Sharia Services financial statement must be consolidated into the financial statement of the parent Sharia Branch Office on the same day.

Article 39

- (1) The Bank shall submit a report of its plan for Sharia Services to Bank Indonesia as referred to in Article 38 not later than 30 (thirty) days prior to launching of the activities.
- (2) The Sharia Services as referred to in Article 38 shall open for business no later than 30 (thirty) days after the date of confirmation from Bank Indonesia.
- (3) Opening of Sharia Services shall be reported by the Bank to Bank Indonesia no later than 10 (ten) days after the opening date.

Part Nine

Nature of Business

Article 40

- (1) Banks conducting business based on sharia principles are required to apply sharia principles and prudential principles in the conduct of their business.
- (2) The regulation of business based on sharia principles shall be guided by the provisions concerning business as stipulated in the Bank Indonesia Regulation concerning Commercial Banks Conducting Business Based on Sharia Principles.

Part Ten

Moving of Office Address

Article 41

The regulation of moving of address for a Sharia Branch Office, Office Below Sharia Branch Office, and Outdoor Cash Operations shall be guided by the provisions for moving of office address as stipulated in the Bank Indonesia Regulation concerning Commercial Banks Conducting Business Based on Sharia Principles.

Part Eleven

Upgrading and Downgrading of Office

Article 42

- (1) Upgrading of Office Below Sharia Branch Office to Sharia Branch Office shall take place in compliance with the provisions for establishment of Sharia Branch Offices.
- (2) Upgrading of Outdoor Cash Operations to Office Below Sharia Branch Office shall take place in compliance with the provisions for opening of Offices Below Sharia Branch Office.

Article 43

- (1) Downgrading of Sharia Branch Office to Office Below Sharia Branch Office may take place only by closure of the Sharia Branch Office and opening of an Office Below Sharia Branch Office.
- (2) Downgrading of Office Below Sharia Branch Office to Sharia Bank Outdoor Cash Operations may only take place by closure of the Office Below Sharia Branch Office and opening of Sharia Bank Outdoor Cash Operations.

Part Twelve

Closure of Sharia Offices

Article 44

The regulation of closing of Sharia Branch Offices and Offices Below Sharia Branch Office and termination of Outdoor Cash Operations shall be guided by the provisions for closure of offices as stipulated in the Bank Indonesia Regulation concerning Commercial Banks Conducting Business Based on Sharia Principles.

Article 45

- (1) A Sharia Unit may only be closed pursuant to approval from the Governor of Bank Indonesia.
- (2) The plan for closure of the Sharia Unit shall be reported by the Bank to Bank Indonesia no later than 30 (thirty) days prior to the closure, enclosing:
 - a. reasons for closure;
 - b. measures to be taken for settlement of liabilities of the Sharia Unit to customers and other parties.
- (3) Closing down of the Sharia Unit shall be reported by the Bank to Bank Indonesia no later than 10 (ten) days after the closing date, and must enclose:
 - a. report of settlement of liabilities to customers and other parties; and
 - b. statement from the Head of the Sharia Division that measures for settlement of all liabilities of the Sharia Unit to customers and other parties have been completed and that any future claim shall become the responsibility of the Head of the Sharia Division for and on behalf of the Bank.
- (4) If deemed necessary, Bank Indonesia shall conduct an on-site examination of the Sharia Unit to verify the settlement of all liabilities of the Sharia Unit to be closed.

Article 46

- (1) Closure of a Sharia Unit shall be reported by the Bank to Bank Indonesia not later than 10 (ten) days after the closing date of the Sharia Unit.
- (2) Closure of the Sharia Unit as referred to in paragraph (1) shall be announced by the Bank in a newspaper with wide circulation in the domicile of the Bank Office no later than 10 (ten) days after the closing date.

Article 47

Article 47 ...

- (1) Any plan for termination of Sharia Services shall be reported by the Bank to Bank Indonesia no later than 30 (thirty) days prior to the termination, enclosing:
 - a. reasons for termination; and
 - b. measures to be taken for settlement of liabilities to customers and other parties.
- (2) Termination of Sharia Services shall be reported by the Bank to Bank Indonesia no later than 10 (ten) days after the date of termination, and must enclose:
 - a. evidence of settlement of liabilities to customers and other parties; and
 - b. statement from the manager of the parent Sharia Branch Office that measures for settlement of all liabilities of the Sharia Services to customers and other parties have been completed and that any future claim shall become the responsibility of the manager of the parent Sharia Branch Office for and on behalf of the Bank.

Part Thirteen

Accounting

Article 48

The accounting system for business based on sharia principles shall refer to the applicable Sharia Financial Accounting Standards for sharia banking.

Part Fourteen

Administration of Documents

Article 49

- (1) Banks shall duly administer:

a. the ...

- a. the register of shareholders and amendments thereto for a Bank legally incorporated as a Limited Liability Company/Regional Government Enterprise; or
 - b. register of members and amendments thereto for a Bank legally incorporated as a Cooperative.
- (2) A Bank listed on the capital market shall update the register as referred to in paragraph (1) letter a.

Article 50

- (1) Banks are required to furnish amendments to documents as referred to in Article 11 paragraph (3) with reference to the applicable regulatory provisions concerning business plan of the Bank .
- (2) Banks are required to furnish amendments to documents as referred to in Article 3 paragraph (1) letter h, letter i, and letter j at any time, in the event of material change.
- (3) Documents as referred to in paragraph (2) shall be submitted to Bank Indonesia not later than 30 (thirty) days after the change happened.

Article 51

Banks are required to guarantee the integrity of any document or identity issued by any relevant agency or third party which delivered to Bank Indonesia.

CHAPTER IV TRANSITIONAL PROVISIONS

Article 52

- (1) Applications for licenses submitted prior to the enactment of this Bank Indonesia Regulation but not yet approved shall be brought into conformity with the requirements and documents prescribed in this Bank Indonesia Regulation.
- (2) Any Head of Sharia Division failing to comply with the requirements referred to in Article 11 paragraph (4) letter a shall be required to bring him/herself into compliance with those provisions not later than 1 (one) year after the issuance of this Bank Indonesia Regulation.

CHAPTER V SANCTIONS

Article 53

- (1) Any Bank failing to comply with the provisions in Article 2, Article 4 paragraph (3), Article 7 paragraph (1), Article 8 paragraph (1), paragraph (4) and paragraph (5), Article 9, Article 10, Article 11, Article 12, Article 13 paragraph (3), Article 14, Article 15, Article 16, Article 17 paragraph (1), Article 20 paragraph (2), Article 22 paragraph (3), Article 23 paragraph (1) and paragraph (3), Article 24, Article 25, Article 27 paragraph (1), Article 28, Article 29 paragraph (2), Article 32, Article 34 paragraph (1), Article 35, Article 36 paragraph (1) and paragraph (2), Article 37, Article 38, Article 39 paragraph (1) and paragraph (2), Article 40, Article 41, Article 42, Article 43, Article 44, Article 45 paragraph (1) and paragraph (2), Article 47 paragraph (1), Article 48, Article 49, Article 50, Article 51, and Article 52 paragraph (2) shall be liable to administrative sanctions in accordance with Article 52 of Act

Number 7 of 1992 concerning Banking as amended by Act Number 10 of 1998.

- (2) Any Bank failing to comply with the provisions in Article 7 paragraph (2), Article 22 paragraph (4), Article 27 paragraph (2), Article 29 paragraph (3), Article 34 paragraph (2), Article 36 paragraph (3), Article 39 paragraph (3), Article 46, and Article 47 paragraph (2) shall be liable to administrative sanctions in accordance with Article 52 of Act Number 7 of 1992 concerning Banking as amended by Act Number 10 of 1998 in the form of:
 - a. written warning and financial penalty of Rp 1,000,000.00 (one million rupiahs) per day of delay for each report and/or announcement;
 - b. written warning and financial penalty of Rp 30,000,000.00 (thirty million rupiahs) if the Bank fails to submit a report and/or announcement.
- (3) A Bank shall be declared not to have delivered a report and/or announcement as referred to in paragraph (2) letter b in the event that the Bank has not delivered the report in question within 30 (thirty) days of the deadline for delivery of the report and/or announcement.
- (4) Any party failing to comply with the provisions of Article 13 paragraph (2), Article 24 paragraph (1), and Article 32 paragraph (1) shall be liable to criminal penalties in accordance with Article 46 of Act Number 7 of 1992 concerning Banking as amended by Act Number 10 of 1998.

CHAPTER VI

CONCLUDING PROVISIONS

Article 54

With the enactment of this Bank Indonesia Regulation, Bank Indonesia Regulation Number 4/1/PBI/2002 dated March 27, 2002, concerning Conventional

- 41 -

Commercial Banks conducting Business Based on Sharia Principles is revoked and declared no longer valid.

Article 55

This Bank Indonesia Regulation shall come into force on the date of its enactment.

Enacted in: Jakarta

Dated: January 30, 2006

THE GOVERNOR OF BANK INDONESIA,

BURHANUDDIN ABDULLAH

STATE GAZETTE OF THE REPUBLIC OF INDONESIA NUMBER 5 OF 2006

DPbS

ELUCIDATION
TO
BANK INDONESIA REGULATION
NUMBER: 8/3/PBI/2006
CONCERNING
CONVERSION OF BUSINESS OF CONVENTIONAL COMMERCIAL
BANKS TO COMMERCIAL BANKS CONDUCTING BUSINESS BASED ON
SHARIA PRINCIPLES AND ESTABLISHMENT OF BANK OFFICES
CONDUCTING BUSINESS BASED ON SHARIA PRINCIPLES BY
CONVENTIONAL COMMERCIAL BANKS

GENERAL REVIEW

In response to developments in the national economy, one that is becoming increasingly complex and integrated into the international economy, policy adjustments are needed in banking. These policy adjustments are expected to improve and build greater resilience into the national banking system.

The policy adjustments are also intended to promote more rapid expansion of the office networks of Conventional Commercial Banks conducting business based on sharia principles in order to build wider service outreach. In this regard, Branch Offices of a foreign banks conducting conventional business are also given opportunity to participate in sharia banking.

Expansion of sharia banking must be supported by strong capital and fit and proper bank owners of sound financial standing so that it will be able to operate in line with the globalization of financial systems and opening of market access. In addition to strong capital, banks must also have competent management, Sharia Supervisory Boards, bank officers, and human resources for the sound management of the bank. Alongside this, the optimized expansion of bank office

networks ...

networks must in any case consider feasibility and business plan of the Bank. Expansion of office networks must also take account of the saturation level of number of banks, competition among banks conducting business based on sharia principles, and equitable distribution of economic development.

ARTICLE BY ARTICLE

Article 1

Number 1

Self-explanatory.

Number 2

Self-explanatory.

Number 3

Self-explanatory.

Number 4

Self-explanatory.

Number 5

Self-explanatory.

Number 6

Self-explanatory.

Number 7

Self-explanatory.

Number 8

Self-explanatory.

Number 9

Self-explanatory.

Number 10

Self-explanatory.

Number 11 ...

Number 11

Self-explanatory.

Number 12

Self-explanatory.

Number 13

Self-explanatory.

Number 14

Self-explanatory.

Number 15

Self-explanatory.

Number 16

Self-explanatory.

Number 17

Self-explanatory.

Number 18

Self-explanatory.

Number 19

Self-explanatory.

Number 20

Self-explanatory.

Article 2

Paragraph (1)

Self-explanatory.

Paragraph (2)

Self-explanatory.

Article 3

Paragraph (1)

Letter a

Self-explanatory.

Letter b

Self-explanatory.

Letter c

Self-explanatory.

Letter d

Self-explanatory.

Letter e

Number 1 through number 6

Self-explanatory.

Number 7

“Application date” is the date at which the Bank submits the application for conversion of the business of the Bank.

Number 8

Regulation in regard to the number of experienced members of the Board of Directors or Board of Commissioners shall be guided by the Bank Indonesia Regulation concerning Implementation of Good Corporate Governance as applicable for banks conducting Business Based on Sharia Principles.

Number 9 through number 13

Self-explanatory.

Number 14 ...

Number 14

Self-explanatory.

Letter f

Composition and structure of organization and personnel among others includes the organizational chart, horizontal and vertical lines of responsibility, and the positions and names of personnel at least to the level of Executive Officer.

Letter g

Number 1

Supporting data is data used in calculations/analysis in the feasibility study, issued by a competent authority.

Number 2 and number 3

Self-explanatory.

Letter h

Corporate plan includes, among others, the Bank strategic plans for the medium term (three years) and long term (five years) for achieving the objective of conversion of Bank business to Bank conducting Business Based on Sharia Principles.

Letter i

Risk management guidelines shall set forth, among others, the techniques and methods used by the Bank to identify, measure, monitor, and control risks incurred by Bank operations. Risk management guidelines shall not only be based on historical data, but also encompass forward-looking risk projections.

Letter j ...

Letter j

Working systems and procedures include a complete and comprehensive manual to be used for Business Based on Sharia Principles.

Letter k

Settlement of liabilities to customers unwilling to become customers of a Bank based on Sharia Principles may take place among others by transfer of all liabilities to another Bank or other party, subject to customer approval.

Letter l

Self-explanatory.

Paragraph (2)

Letter a

Self-explanatory.

Letter b

Number 1 through 5

Self-explanatory.

Number 6

“Business group related to the Bank” is defined as:

- a. any individual and legal entity;
- b. several persons; or
- c. several legal entities having management, ownership, or family ties as stipulated in the Bank Indonesia Regulation concerning the Legal Lending Limit.

Number 7

A personal statement by a Controlling Shareholder incorporated as a legal entity shall be made and delivered by

the management ...

the management duly authorized to represent the legal entity concerned.

In the case of a Bank comprising part of the holdings of a business group, the personal statements shall be delivered by parties that in the opinion of Bank Indonesia exercise control, whether directly or indirectly, of the entire business group.

Article 4

Paragraph (1)

Self-explanatory.

Paragraph (2)

Letter a

Examination of the documents may include on-site examination if necessary.

Letter b

Self-explanatory.

Letter c

Interviews shall be held for the nominee Controlling Shareholder, nominees for the Board of Commissioners, and nominees for the Board of Directors in accordance with the Bank Indonesia Regulation concerning the Fit and Proper Test.

Paragraph (3)

Self-explanatory.

Article 5

Self-explanatory.

Article 6

Self-explanatory.

Article 7

Paragraph (1)

Self-explanatory.

Paragraph (2)

Self-explanatory.

Paragraph (3)

Self-explanatory.

Article 8

Paragraph (1)

Self-explanatory.

Paragraph (2)

Self-explanatory.

Paragraph (3)

Self-explanatory.

Paragraph (4)

Supporting evidence as referred to in this paragraph may comprise evidence of repayment ability of debtors within a specified period.

Paragraph (5)

Self-explanatory.

Article 9

Self-explanatory.

Article 10

Self-explanatory.

Article 11

Paragraph (1)

Self-explanatory.

Paragraph (2) ...

Paragraph (2)

“Placement and management of funds” is defined as treasury activities on the sharia money market, not disbursement of funds to the public.

Paragraph (3)

Self-explanatory.

Paragraph (4)

Self-explanatory.

Paragraph (5)

Self-explanatory.

Article 12

Self-explanatory.

Article 13

Paragraph (1)

Self-explanatory.

Paragraph (2)

Self-explanatory.

Paragraph (3)

A Bank may only establish a Sharia Branch Office in accordance with the confirmation issued by Bank Indonesia of business plan of the Bank insofar as no material change has taken place in its financial condition from the business plan to the realization of the business plan at the date of establishment of the office, such as significant reduction in Bank capital.

Paragraph (4)

Self-explanatory.

Paragraph (5) ...

Paragraph (5)

Self-explanatory.

Article 14

Initial operating expenses include but are not limited to building lease, employee salaries, and overhead costs.

The Minimum Capital Adequacy Requirement in this Article shall be guided by the Bank Indonesia Regulation concerning the Minimum Capital Adequacy Requirement.

Article 15

Self-explanatory.

Article 16

Self-explanatory.

Article 17

Paragraph (1)

Self-explanatory.

Paragraph (2)

Self-explanatory.

Article 18

Paragraph (1)

Letter a

Self-explanatory.

Letter b

If a Bank is to use leased office premises, the documents of plans for operational readiness of the office space may temporarily comprise a memorandum of understanding on lease of office space. A lease agreement shall be delivered at

the time ...

the time that the Bank reports the opening of the office for business.

Letter c through letter j

Self-explanatory.

Paragraph (2)

Letter a

Self-explanatory.

Letter b

Settlement of liabilities to customers unwilling to be customers of a Bank conducting Business Based on Sharia Principles may take place, among others, by transfer of all liabilities to another Bank or other party, subject to customer approval.

Article 19

Paragraph (1)

Self-explanatory.

Paragraph (2)

Self-explanatory.

Paragraph (3)

Self-explanatory.

Article 20

Paragraph (1)

Self-explanatory.

Paragraph (2)

Self-explanatory.

Paragraph (3)

Self-explanatory.

Article 21 ...

Article 21

Paragraph (1)

Self-explanatory.

Paragraph (2)

Self-explanatory.

Article 22

Paragraph (1)

If necessary for examination of the integrity of documents, Bank Indonesia may conduct on-site examination.

Paragraph (2)

If a Sharia Branch Office has its origin in conversion of Branch Office and/or upgrading of Office Below Branch Office conducting conventional business, the license for establishment of the Sharia Branch Office shall replace the license and status of the previous office.

Paragraph (3)

Self-explanatory.

Paragraph (4)

Self-explanatory.

Paragraph (5)

Self-explanatory.

Article 23

Paragraph (1)

Self-explanatory.

Paragraph (2)

Self-explanatory.

Paragraph (3) ...

Paragraph (3)

Self-explanatory.

Article 24

Paragraph (1)

Self-explanatory.

Paragraph (2)

Self-explanatory.

Paragraph (3)

Self-explanatory.

Paragraph (4)

A Bank may only establish a Sharia Unit in accordance with the confirmation issued by Bank Indonesia of business plan of the Bank insofar as no material change has taken place in its financial condition from the business plan to the realization of the business plan at the date of establishment of the office, such as significant reduction in Bank capital.

Article 25

Initial operating expenses include but are not limited to building lease, employee salaries, and overhead costs.

The Minimum Capital Adequacy Requirement in this Article shall be guided by the Bank Indonesia Regulation concerning the Minimum Capital Adequacy Requirement.

Article 26

Paragraph (1)

Letter a

Self-explanatory.

Letter b ...

Letter b

Readiness of human resources is the availability of officers specifically appointed by the Bank to handle the operational activities of the Sharia Unit.

The accounting system in place may separate the report for the Bank office from the report for the Sharia Unit.

Letter c and letter d

Self-explanatory.

Letter e

Number 1

Supporting data is data used in calculations/analysis in the feasibility study, issued by a competent authority.

Number 2 and number 3

Self-explanatory.

Letter f through letter i

Self-explanatory.

Paragraph (2)

Self-explanatory.

Paragraph (3)

Self-explanatory.

Paragraph (4)

Self-explanatory.

Article 27

Paragraph (1)

Self-explanatory.

Paragraph (2)

Self-explanatory.

Paragraph (3) ...

Paragraph (3)

Self-explanatory.

Article 28

Paragraph (1)

Self-explanatory.

Paragraph (2)

Self-explanatory.

Article 29

Paragraph (1)

Self-explanatory.

Paragraph (2)

Settlement of liabilities to customers and other parties may take place among others by transfer of all liabilities to another Bank conducting Business Based on Sharia Principles and/or transfer to another party and/or with approval from the customers.

Paragraph (3)

Self-explanatory.

Paragraph (4)

Self-explanatory.

Article 30

Paragraph (1)

Self-explanatory.

Paragraph (2)

Self-explanatory.

Paragraph (3)

Self-explanatory.

Paragraph (4)

Self-explanatory.

Paragraph (5)

Self-explanatory.

Article 31

Self-explanatory.

Article 32

Paragraph (1)

Self-explanatory.

Paragraph (2)

A Bank may only establish a Sharia Branch Office in accordance with the confirmation issued by Bank Indonesia of business plan of the Bank insofar as no material change has taken place in its financial condition from the business plan to the realization of the business plan at the date of establishment of the office, such as significant reduction in Bank capital.

Paragraph (3)

Self-explanatory.

Article 33

Paragraph (1)

Self-explanatory.

Paragraph (2)

Self-explanatory.

Paragraph (3)

Self-explanatory.

Paragraph (4) ...

Paragraph (4)

If a Sharia Branch Office has its origin in conversion of Branch Office and/or upgrading of Office Below Branch Office conducting conventional business, the license for establishment of the Sharia Branch Office shall replace the license and status of the previous office.

Article 34

Paragraph (1)

Self-explanatory.

Paragraph (2)

Self-explanatory.

Paragraph (3)

Self-explanatory.

Article 35

Paragraph (1)

A Bank may only establish an Office Below Sharia Branch Office in accordance with the confirmation issued by Bank Indonesia of business plan of the Bank insofar as no material change has taken place in its financial condition from the business plan to the realization of the business plan at the date of establishment of the office, such as significant reduction in Bank capital.

Paragraph (2)

Self-explanatory.

Paragraph (3)

If the Office Below Sharia Branch Office occupies the same address as the Bank Branch office and/or Office Below Branch Office, there must be a clear physical separation between the Office Below Sharia

Branch Office and the Bank Branch office and/or Office Below
Branch Office.

Paragraph (4)

Self-explanatory.

Article 36

Paragraph (1)

Self-explanatory.

Paragraph (2)

Self-explanatory.

Paragraph (3)

Self-explanatory.

Article 37

Self-explanatory.

Article 38

Paragraph (1)

Self-explanatory.

Paragraph (2)

Self-explanatory.

Paragraph (3)

Self-explanatory.

Paragraph (4)

Self-explanatory.

Article 39

Paragraph (1)

Self-explanatory.

Paragraph (2)

Self-explanatory.

Paragraph (3) ...

Paragraph (3)

Self-explanatory.

Article 40

Paragraph (1)

Self-explanatory.

Paragraph (2)

Self-explanatory.

Article 41

Self-explanatory.

Article 42

Paragraph (1)

With the issuance of approval for establishment of a Sharia Branch Office, the Office Below Branch Office shall be immediately closed.

Paragraph (2)

With the issuance of approval for opening of Office Below Sharia Branch Office, the Sharia Bank Outdoor Cash Operations shall be immediately terminated.

Article 43

Paragraph (1)

Self-explanatory.

Paragraph (2)

Self-explanatory.

Article 44

Self-explanatory.

Article 45

Paragraph (1)

Self-explanatory.

Paragraph (2) ...

Paragraph (2)

Self-explanatory.

Paragraph (3)

Self-explanatory.

Paragraph (4)

Self-explanatory.

Article 46

Paragraph (1)

Self-explanatory.

Paragraph (2)

Self-explanatory.

Article 47

Paragraph (1)

Letter a

Self-explanatory.

Letter b

Settlement of liabilities to customers and other parties may take place among others by transfer of all liabilities to another sharia office or other party, subject to customer approval.

Paragraph (2)

Letter a

Proof of settlement of liabilities to customers shall take the form of a Sharia Branch Office financial statement indicating that all liabilities of the Sharia Services to customers and other parties have been settled.

Letter b ...

Letter b

Settlement of liabilities to customers and other parties may take place among others by transfer of all liabilities to another sharia office or other party, subject to customer approval.

Article 48

Self-explanatory.

Article 49

Paragraph (1)

Self-explanatory.

Paragraph (2)

Self-explanatory.

Article 50

Paragraph (1)

Self-explanatory.

Paragraph (2)

Self-explanatory.

Paragraph (3)

Self-explanatory.

Article 51

Self-explanatory.

Article 52

Paragraph (1)

Self-explanatory.

Paragraph (2)

Self-explanatory.

Article 53

Paragraph (1)

Self-explanatory.

Paragraph (2)

Letter a

The amount of the financial penalty shall be calculated on the basis of the delay in the report.

Letter b

The amount of the financial penalty shall be calculated on the basis of non-delivered reports.

If the Bank subject to imposition of sanctions fails to submit the report, it shall not be liable to sanctions for late submission of report.

Paragraph (3)

The 30 (thirty) day deadline for submission of the report includes the deadline for submission of corrections of report.

Paragraph (4)

Self-explanatory.

Article 54

Self-explanatory.

Article 55

Self-explanatory.